Cincinnati Christian University

Consolidated Financial Report
June 30, 2016

Contents

RSM US LLP

Independent Auditor's Report

Board of Trustees
Cincinnati Christian University
Cincinnati, Ohio

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Cincinnati Christian University and its subsidiaries (the University), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cincinnati Christian University and its subsidiaries as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern
The accompanying financial statements have been prepared assuming that Cincinnati Christian University and its subsidiaries will continue as a going concern. As discussed in Note 20 to the financial statements, the University has suffered recurring decreases in net assets that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 20. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our reports dated February 4, 2017 and February 2, 2016 on our consideration of Cincinnati Christian University's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cincinnati Christian University's internal control over financial reporting and compliance.

RSM US LLP

Cincinnati, Ohio
February 4, 2017

Cincinnati Christian University

Consolidated Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	**$ 1,257,099**	$ 2,965,925
Student accounts receivable, net	**136,804**	213,153
Contributions receivable, net	**54,530**	112,794
Other receivables	**138,327**	253,738
Investments	**2,739,499**	3,822,213
Inventory	**143,492**	145,004
Prepaid expenses	**150,872**	69,332
Debt closing costs, net	**42,612**	62,293
Beneficial interests held in trusts	**571,905**	609,699
Property and equipment, net	**13,335,154**	13,504,883
Total assets	**$ 18,570,294**	$ 21,759,034
Liabilities and Net Assets		
Accounts payable	**$ 690,862**	$ 558,846
Accrued payroll and related withholdings	**227,830**	305,096
Annuities payable	**535,835**	595,847
Revolving notes payable	**500,000**	1,000,000
Advanced tuition and other student deposits	**415,148**	504,931
Deposits held for others	**13,964**	14,271
Long-term debt	**6,745,819**	7,036,504
Capital leases payable	**373,935**	322,793
Total liabilities	**9,503,393**	10,338,288
Net assets:		
Unrestricted	**2,013,421**	5,004,751
Temporarily restricted	**2,871,160**	2,280,060
Permanently restricted	**4,182,320**	4,135,935
Total net assets	**9,066,901**	11,420,746
Total liabilities and net assets	**$ 18,570,294**	$ 21,759,034

See notes to consolidated financial statements.

Cincinnati Christian University

Consolidated Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total**
Revenues and other support:				
Student tuition, fees and other charges	$ 9,838,181	$ -	$ -	**$ 9,838,181**
Less student aid	3,684,727	-	-	**3,684,727**
Net tuition, fees and other charges	6,153,454	-	-	**6,153,454**
Government grants	96,819	-	-	**96,819**
Contributions	1,901,683	1,114,334	53,260	**3,069,277**
Auxiliary enterprises	2,286,358	-	-	**2,286,358**
Net interest income and investment losses	(51,760)	(7,294)	-	**(59,054)**
Net assets released from restrictions and changes in donor designations	522,815	(515,940)	(6,875)	**-**
Total revenues and other support	10,909,369	591,100	46,385	**11,546,854**
Expenses:				
Instruction	4,215,037	-	-	**4,215,037**
Student services	3,012,184	-	-	**3,012,184**
Academic support	1,340,544	-	-	**1,340,544**
Auxiliary enterprises and activities	2,347,702	-	-	**2,347,702**
Institutional support	2,451,462	-	-	**2,451,462**
Fundraising	484,618	-	-	**484,618**
Total expenses	13,851,547	-	-	**13,851,547**
Other losses:				
Miscellaneous losses	(15,729)	-	-	**(15,729)**
Loss on sale of property and equipment	(33,423)	-	-	**(33,423)**
Total other losses	(49,152)	-	-	**(49,152)**
Change in net assets	(2,991,330)	591,100	46,385	**(2,353,845)**
Net assets:				
Beginning	5,004,751	2,280,060	4,135,935	**11,420,746**
Ending	$ 2,013,421	$ 2,871,160	$ 4,182,320	**$ 9,066,901**

See notes to consolidated financial statements.

Cincinnati Christian University

Consolidated Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Student tuition, fees and other charges	$ 9,941,496	$ -	$ -	$ 9,941,496
Less student aid	3,540,532	-	-	3,540,532
Net tuition, fees and other charges	6,400,964	-	-	6,400,964
Government grants	109,343	-	-	109,343
Contributions	1,814,471	240,240	21,828	2,076,539
The Glades RV Resort sales	1,051,848	-	-	1,051,848
Auxiliary enterprises	2,574,722	-	-	2,574,722
Net interest income and investment gains	159,513	11,671	-	171,184
Net assets released from restrictions and changes in donor designations	1,518,519	(930,584)	(587,935)	-
Total revenues and other support	13,629,380	(678,673)	(566,107)	12,384,600
Expenses:				
Instruction	4,376,045	-	-	4,376,045
Student services	2,711,501	-	-	2,711,501
Academic support	1,439,841	-	-	1,439,841
Auxiliary enterprises and activities	2,741,007	-	-	2,741,007
Institutional support	2,466,966	-	-	2,466,966
Fundraising	310,160	-	-	310,160
Total educational and general	14,045,520	-	-	14,045,520
The Glades RV Resort expenses	1,119,153	-	-	1,119,153
Total expenses	15,164,673	-	-	15,164,673
Other gains (losses):				
Recovery of uncollectible pledges	1,600	-	-	1,600
Loss on sale of property and equipment	(14,840)	-	-	(14,840)
Gains on sale of land and land improvements and The Glades RV Resort	1,255,499	-	-	1,255,499
Total other gains (losses)	1,242,259	-	-	1,242,259
Change in net assets	(293,034)	(678,673)	(566,107)	(1,537,814)
Net assets:				
Beginning	5,297,785	2,958,733	4,702,042	12,958,560
Ending	$ 5,004,751	$ 2,280,060	$ 4,135,935	$ 11,420,746

See notes to consolidated financial statements.

Cincinnati Christian University

Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2016	2015
Cash flows from operating activities:		
Change in net assets	**$ (2,353,845)**	$ (1,537,814)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**927,560**	1,020,460
Net realized and unrealized investment losses and (gains)	**127,188**	(105,203)
Loss on sale of property and equipment	**33,423**	14,840
Gains on sale of land and land improvements and The Glades RV Resort	**-**	(1,255,499)
Non-cash contributions received	**(225,582)**	(343,675)
Actuarial adjustment on annuity obligations	**51,882**	2,345
Contributions restricted for long-term investment	**(30,740)**	(56,853)
Changes in operating assets and liabilities:		
Student accounts receivable and other receivables	**191,760**	(109,142)
Contributions receivable	**58,264**	76,802
Inventory	**1,512**	11,041
Prepaid expenses	**(81,540)**	70,460
Accounts payable and accrued payroll and related withholdings	**54,750**	262,636
Advanced tuition and other student deposits	**(89,783)**	15,464
Annuities payable	**(111,894)**	23,277
Deposits held for others	**(307)**	(13,072)
Net cash used in operating activities	**(1,447,352)**	(1,923,933)
Cash flows from investing activities:		
Proceeds from sale of investments	**2,188,175**	1,539,769
Purchase of investments	**(969,273)**	(1,059,410)
Purchase of property and equipment	**(538,004)**	(640,962)
Proceeds from the sale of property and equipment	**13,500**	22,200
Proceeds from the sale of land and improvements and The Glades RV Resort	**-**	3,380,284
Net cash provided by investing activities	**694,398**	3,241,881
Cash flows from financing activities:		
Contributions restricted for long-term investment	**30,740**	56,853
Net borrowings (repayments) under revolving notes payable	**(500,000)**	900,000
Borrowings under long-term debt	**65,539**	50,000
Payments on long-term debt	**(356,224)**	(345,980)
Payments on capital leases payable	**(195,927)**	(86,816)
Net cash (used in) provided by financing activities	**(955,872)**	574,057
Net (decrease) increase in cash and cash equivalents	**(1,708,826)**	1,892,005

(Continued)

Cincinnati Christian University

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2016 and 2015

	2016	2015
Cash and cash equivalents:		
Beginning	**$ 2,965,925**	$ 1,073,920
Ending	**$ 1,257,099**	$ 2,965,925
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ 459,801**	$ 484,025

Supplemental disclosure of non-cash investing and financing activities:

During the years ended June 30, 2016 and 2015, Cincinnati Christian University financed equipment, buildings and vehicle acquisitions totaling $247,069 and $174,400, respectively, through various financing arrangements and capital leases.

Note 1. Description of the Organization

Organization and purpose: Cincinnati Christian University (CCU) was incorporated on July 19, 1928 in the state of Ohio as a not-for-profit institution. CCU's purpose is to educate persons for the ministry and church-related leadership vocations, as well as develop well-rounded leaders who follow Christ and positively impact their community, country and the world. CCU is a coeducational institution of higher learning offering undergraduate and graduate degrees and has been accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools.

Cincinnati Christian University Foundation (the Foundation) is a Section 501(c) (3) organization organized under the laws of the state of Ohio for the purpose of providing financial and other support for, and to otherwise operate for the benefit of CCU. The Foundation was incorporated on December 5, 2011. CCU and the Foundation are related through common control.

CCU Management Company LLC (the Company) is a limited liability company organized under the laws of the state of Florida for the purpose of owning and managing The Glades RV Resort (The Glades) in Moore Haven, Florida. The Glades includes sites for recreational vehicles, a golf course, a marina and recreational facilities. The Company is a single member limited liability company in which the Foundation is the sole member. As a result, the Company is a disregarded entity by the Internal Revenue Service. The Company was incorporated on December 7, 2011. The Glades was sold June 30, 2015 (see Note 18). The Company did not have any financial activity during the year ended June 30, 2016.

Note 2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the accompanying consolidated financial statements (collectively, the financial statements):

Basis of presentation: The financial statements include the accounts of CCU, the Foundation, and the Company, hereafter, collectively the University. All intercompany accounts and transactions are eliminated in consolidation. The accompanying financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification.

Net assets: The University displays its net assets and activities based on the existence or absence of donor-imposed restrictions as follows:

> **Unrestricted**: Net assets that are not subject to donor-imposed restrictions. The board of trustees retains full control to use in achieving any of its objectives.
>
> **Temporarily restricted**: Net assets subject to donor-imposed restrictions that can be fulfilled either by actions of the University pursuant to those restrictions or that expire by the passage of time.
>
> **Permanently restricted**: Net assets subject to donor-imposed restrictions that the principal remain in perpetuity by the University. As provided for in the gift instrument, the income earned is available to be used for unrestricted or temporarily restricted purposes.

Revenue recognition: Tuition revenue is recognized during each semester that a student is enrolled in one of the University's programs. Tuition payments received but unearned as of the end of the fiscal year are recorded as advanced tuition and other student deposits and amortized over the appropriate academic term. Government grant revenue is recognized when it is earned by incurring the allowable expenditure.

Note 2. Summary of Significant Accounting Policies (Continued)

Contributions, including unconditional promises to give, are recognized as revenue when donors' commitments are received. Conditional promises to give are not recognized until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are measured at net realizable value. Unconditional promises to give that are expected to be collected after one year are recorded at the present value of the estimated future cash flows using a risk-free rate of return. Discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. The University records contributions of land, buildings, and equipment at the fair value of the property at the date of the gift. The gifts are recorded as unrestricted unless the donor places restrictions on their use. Donated securities are recorded as contributions at the fair value of the security at the date of the gift. The University uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises to give.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Restricted earnings on investments and donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Cash and cash equivalents: Cash and cash equivalents include deposits in financial institutions, money market funds, and investments that have maturities of less than three months when purchased.

Student accounts receivable: Student accounts receivable represent credit extended to students with no underlying collateral. Such balances are due at the beginning of each semester and are stated net of an allowance for doubtful accounts. Students unable to meet the requirement are able to enter into short-term payment arrangements. Payments not made by the due date are considered past due. The University determines its allowance for doubtful accounts based on the estimated net realizable value of expected collections based on historical collection rates. Student accounts are written off when deemed uncollectible.

Investments: Investments are measured at fair value in the consolidated statements of financial position (see Note 15). Investment income or loss is included in the consolidated statements of activities as increases or decreases in unrestricted net assets unless the investment income or loss is restricted by donor or law.

Inventory: Inventory consists primarily of textbooks, journals, clothing and other items sold in the University's bookstore. Inventory is stated at the lower of cost or market, with cost determined on the first-in, first-out method.

Debt closing costs, net: Closing costs are amortized over the expected life of the related notes. Letter of credit fees are amortized over the period covered by the letter of credit. These costs are amortized using a method that approximates the effective interest method.

Note 2. Summary of Significant Accounting Policies (Continued)

Beneficial interests held in trusts: The University has entered into split interest agreements, including charitable remainder trusts and gift annuities which provided that the University make payments to designated beneficiaries in accordance with the applicable donor's trust or contractual agreement. The University is also the beneficiary of trusts held and administered by independent trustees. Under the terms of the trusts, the University has the right to receive a portion of the income earned on the trust assets. The fair value of the beneficial interest in the trusts is recognized as an asset and a temporarily restricted contribution at the date the trusts are established. The University's estimate of fair value is based on fair value information received from the trustees. The trust assets consist primarily of mutual funds, equities, certificates of deposit, fixed income obligations and corporate obligations. These assets are not subject to control or direction by the University. The University's beneficial interest in trusts is valued at the University's share of the investments held by the trust, measured at fair value at the report date.

Property and equipment, net: Expenditures for property and equipment and items which substantially increase the useful lives of owned assets are capitalized at cost at the date of acquisition. Donated property and equipment is recorded at the approximate fair value at the date of the gift. Repairs and maintenance are expensed when incurred.

Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	40 years
Buildings	40 years
Equipment, furniture and fixtures	3-10 years
Vehicles	4-10 years
Library books	6-20 years

When property and equipment is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized. The University reviews its long-lived assets if changes in circumstances indicate that the carrying amount may not be recoverable. Management believes there has been no impairment in the carrying value of its long-lived assets.

Annuities payable: The University has entered into charitable gift annuity agreements. Under these agreements, a donor contributes assets to the University in exchange for the right to receive a fixed dollar annual return during the donor's lifetime. A portion of the transfer is considered to be a charitable contribution for income tax purposes. The difference between the assets transferred for the gift annuity and the liability for future payments, determined on an actuarial basis, is recognized as a contribution at the date of the gift. The annuity liability is revalued annually using a discount rate established at the inception of the agreement and appropriate actuarial assumptions.

Functional allocation of expenses: The costs of providing the programs and other activities have been summarized on a functional basis on the consolidated statement of activities. Expenses have been allocated based on the actual direct expenditure benefit to each respective function and allocation of indirect costs based on square footage assumptions.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Credit concentration: From time to time, in the normal course of business, the University may have funds on deposit with financial institutions in excess of insured limits.

Note 2. Summary of Significant Accounting Policies (Continued)

Income taxes: CCU and the Foundation are recognized by the Internal Revenue Service as organizations exempt from income taxes on related income under Section 501(c)(3) of the U.S. Internal Revenue Code. The Foundation may have unrelated business income. Taxes on the unrelated business income, if any, are not material to the financial statements. In addition, CCU and the Foundation have been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code.

Management has evaluated the tax positions of CCU and the Foundation and has concluded that no uncertain tax positions have been taken that require adjustment to or disclosure in the financial statements. CCU and the Foundation file a U.S. Federal tax return. Generally, CCU and the Foundation are no longer subject to tax examinations for fiscal years before June 30, 2013. CCU and the Foundation have no examinations in progress.

Advertising: The University expenses all advertising costs when incurred. Advertising expense was $43,932 and $231,672 for the years ended June 30, 2016 and 2015, respectively.

Recent accounting pronouncements: In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This ASU is required to be applied to the financial statements issued for fiscal years beginning after December 15, 2015. The amendments in ASU 2015-03 are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the consolidated statements of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. Management is currently evaluating the impact these updates may have on the University’s financial statements and disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The University is currently in the process of assessing what impact this new standard may have on its financial statements and determining what transition method will be used.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The University is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. This accounting standard makes improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The standard sets forth improvements to net asset classification requirements and the information presented about a not-for-profit entity’s liquidity, financial performance and cash flows. ASU 2016-14 will be effective for years beginning after December 15, 2017. The University is currently evaluating the impact of the adoption of this standard on its financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

Reclassifications: Certain reclassifications have been made to the 2015 financial statement presentation to conform to 2016 presentation. Such reclassifications had no effect on the previously stated change in net assets.

Note 3. Receivables

Student accounts receivable consist of the following at June 30:

	2016	2015
Amounts due from students for tuition and other costs	$ 286,804	$ 363,153
Allowance for doubtful accounts	(150,000)	(150,000)
Net value	$ 136,804	$ 213,153

Note 4. Investments

Investments are summarized as follows at June 30:

	2016	2015
Equity securities	$ 876,256	$ 1,146,983
Corporate bonds and notes	367,530	547,621
Government bonds and notes	389,311	417,617
Mutual funds - equities	514,599	1,478,407
Mutual funds - bonds	96,258	97,863
Exchange-traded funds	495,545	133,722
Total	$ 2,739,499	$ 3,822,213

The consolidated statements of activities includes the following components of return on investments and the beneficial interests held in trusts for the years ended June 30:

	2016		
	Unrestricted	Temporarily Unrestricted	Total
Interest and dividends	$ 86,758	$ 12,703	$ 99,461
Net realized and unrealized losses	(113,910)	(13,278)	(127,188)
Investment fees	(24,608)	(6,719)	(31,327)
	$ (51,760)	$ (7,294)	$ (59,054)

	2015		
	Unrestricted	Temporarily Unrestricted	Total
Interest and dividends	$ 92,192	$ 11,920	$ 104,112
Net realized and unrealized gains	98,218	6,985	105,203
Investment fees	(30,897)	(7,234)	(38,131)
	$ 159,513	$ 11,671	$ 171,184

Note 5. Property and Equipment

Property and equipment consists of the following at June 30:

	2016	2015
Land improvements	$ 2,135,511	$ 2,100,971
Buildings	16,651,251	16,573,366
Equipment, furniture and fixtures	6,426,735	6,137,416
Vehicles	446,298	468,882
Library books	2,100,456	2,054,087
	27,760,251	27,334,722
Accumulated depreciation and amortization	(16,085,102)	(15,600,136)
Land	1,650,005	1,650,005
Construction-in-progress	10,000	120,292
	$ 13,335,154	$ 13,504,883

Note 6. Annuities Payable

Annuities payable were $535,835 and $595,847 at June 30, 2016 and 2015, respectively. Assets held were $183,556 and $361,698 at June 30, 2016 and 2015, respectively. The annuity rates used range from 5.7 percent to 9.0 percent and 5.7 percent to 11.0 percent as of June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, payments made to annuitants totaled $111,894 and $107,383, respectively.

Contribution revenue related to annuity agreements was $0 and $141,866 for the years ended June 30, 2016 and 2015, respectively. Changes in the status of gift annuity contracts and changes in value of the gift annuity contracts resulted in an increase in annuities payable of $51,882 and $2,345 for the years ended June 30, 2016 and 2015, respectively.

Note 7. Revolving Notes Payable

At June 30, 2016 and 2015, the University has a revolving note with a bank providing for maximum borrowings up to $500,000 through May 2017. Borrowings under the revolving note accrue interest at the bank's index rate (3.50 percent and 3.25 percent at June 30, 2016 and 2015, respectively) plus 1.00 percent, but cannot be less than 5.25 percent, and is due quarterly. The revolving note is secured by substantially all of the University's assets and is subject to certain affirmative and negative covenants, including the maintenance of defined working capital, debt service coverage ratio, tangible net worth and debt to worth ratio. At June 30, 2016 and 2015, the University had outstanding borrowings of $500,000 on the revolving note. The University was in violation of certain of the above covenants as of and for the year ended June 30, 2016. The bank has waived the covenant violations at June 30, 2016.

At June 30, 2015, the University had a short-term note with a bank with borrowings outstanding of $500,000. Borrowings were repaid in full during July 2015.

Interest expense on the revolving notes payable, long-term debt (Note 8), and capital leases payable (Note 9) was $459,801 and $483,749 for the years ended June 30, 2016 and 2015, respectively.

Note 8. Long-Term Debt

Long-term debt consists of the following at June 30:

	2016	2015
Term note payable to a bank, due in monthly installments of $1,767, including interest at 5.75 percent through May 2019. The note is secured by a building.	$ 234,555	$ 241,779
Installment notes payable to an automobile credit company, due in monthly installments ranging from $376 to $801, expiring at various times through November 2018, bearing interest from zero percent to 8.95 percent per annum. The notes are secured by certain vehicles.	52,737	94,220
Installment notes payable to a company, due in monthly installments ranging from $2,381 to $3,434, expiring at various times through March 2018, bearing interest at 15 percent per annum. The notes represent seller financing of four houses and renovations to another two houses owned by CCU. The title transfers to CCU once the final payment on the installment notes is paid.	79,144	162,407
Term note payable to a bank, due in monthly installments of $48,772, including interest at 5.75 percent through May 2018, when a balloon payment of $5,862,958 will be due. The note is secured by substantially all of the University's assets and is subject to certain affirmative and negative covenants, including the maintenance of defined working capital, debt service coverage ratio, tangible net worth and debt to worth ratio. The University was in violation of certain of the above covenants as of and for the year ended June 30, 2016. The bank has waived the covenant violations.	6,285,340	6,496,431
Term note payable to a company, due in monthly installments of $694 through June 2020. The note is non-interest bearing. The note would be due on demand if the service contract with the company is cancelled prior to full repayment of the note. The note is secured by certain equipment, furniture and fixtures.	33,333	41,667
Term note payable to a bank, due in monthly installments of $1,434, including interest at 6.30 percent through June 2020. The note is secured by certain fixtures.	60,710	-
	$ 6,745,819	$ 7,036,504

The aggregate principal maturities of long-term debt are as follows:

Year ending June 30,	
2017	$ 343,782
2018	6,130,689
2019	246,374
2020	24,974
	$ 6,745,819

Note 9. Capital Leases Payable

The University leases equipment, furniture and fixtures and building improvements under capital leases expiring in various years through March 2019. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over the lower of their related lease terms or their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for the years ended June 30, 2016 and 2015.

Minimum future lease payments required under current capital lease terms are as follows:

Year ending June 30,	
2017	$ 186,149
2018	167,453
2019	38,373
	391,975
Amount representing interest	(18,040)
Capital leases payable	$ 373,935

Cost and accumulated amortization of the assets capitalized in connection with the above capital lease agreements are as follows:

	2016	2015
Equipment	$ 802,223	$ 571,597
Accumulated amortization	(189,050)	(118,904)
Net value	$ 613,173	$ 452,693

Note 10. Retirement Plan

The University sponsors a defined contribution retirement plan through Internal Revenue Code Section 403(b). The plan covers all full time employees who have completed one year of service and one thousand hours. Contributions to the covered employees' third-party annuity accounts are determined at the discretion of the board of trustees. The University's contribution percentage was 3 percent for the years ended June 30, 2016 and 2015. Voluntary employee contributions are permitted up to the maximum allowed by the Internal Revenue Code. Total retirement plan expense was $65,192 and $69,942 for the years ended June 30, 2016 and 2015, respectively.

Note 11. Commitments

Operating leases: The University leases various equipment under operating leases. The monthly payments on the non-cancelable leases range from $459 to $8,499 and expire at various times through July 2019. Rent expense under the operating leases was $276,855 and $228,032 for the years ended June 30, 2016 and 2015, respectively.

Note 11. Commitments (Continued)

The following is a schedule, by year, of the future minimum rental payments required under the above operating leases:

Year ending June 30,	
2017	$ 201,501
2018	186,979
2019	169,142
2020	11,420
	$ 569,042

Note 12. Temporarily Restricted Net Assets

Activity related to temporarily restricted net assets consist of the following for the years ended June 30:

	2016			
	Beginning Balance	Additions	Net Assets Released	Ending Balance
Alumni association	$ 176,153	$ 8,715	$ 13,500	$ 171,368
Double honor initiative project	-	838,318	-	838,318
Loan funds	181,728	282	3,634	178,376
Property and equipment	644,316	21,366	171,997	493,685
Student tuition and living expenses [a]	158,245	(2,941)	7,836	147,468
Scholarships	294,544	30,441	31,654	293,331
Time restricted [a]	481,828	(4,352)	34,977	442,499
Other	343,246	215,211	252,342	306,115
	$ 2,280,060	$ 1,107,040	$ 515,940	$ 2,871,160

	2015			
	Beginning Balance	Additions	Net Assets Released	Ending Balance
Alumni association	$ 189,013	$ 27,982	$ 40,842	$ 176,153
Loan funds	188,211	-	6,483	181,728
Property and equipment	1,272,911	66,006	694,601	644,316
Student tuition and living expenses	162,584	1,321	5,660	158,245
Scholarships	281,105	26,884	13,445	294,544
Time restricted	557,575	10,350	86,097	481,828
Other	307,334	119,368	83,456	343,246
	$ 2,958,733	$ 251,911	$ 930,584	$ 2,280,060

[a] Temporarily restricted balance contains beneficial interests held in trust. During the year, total return on investment was negative resulting in a decrease to temporarily restricted balance.

Note 13. Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment funds restricted in perpetuity, the income from which is included in the consolidated statements of activities as increases in unrestricted net assets unless the income is restricted by donor or law. Net assets are permanently restricted for the following purposes at June 30:

	2016	2015
Scholarships	$ 3,435,324	$ 3,413,184
Russel School of Ministry	507,494	490,499
Other	239,502	232,252
	$ 4,182,320	$ 4,135,935

During 2016 and 2015, the University made an appeal to certain donors for the removal of restrictions on certain contributions. The University was granted permission from the donors to release $6,875 and $587,935 for unrestricted purposes, which is included in the consolidated statement of activities for the years ended June 30, 2016 and 2015, respectively.

Note 14. Endowment Funds

The University's endowments include only donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of trustees of the University has interpreted the Ohio Uniform Prudent Management of Institutional Funds Act (OUPMIFA) enacted in the state of Ohio as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the University classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by OUPMIFA.

In accordance with OUPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the University and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the University
(7) The investment policies of the University

Note 14. Endowment Funds (Continued)

During 2016, the fair value of assets associated with individual donor-restricted endowment funds were below the level that the donor or OUPMIFA required the University to retain as a fund of perpetual duration. This deficit was a result of the University liquidating investments during the year which were required to fund operational needs and from poor investment returns. In accordance with GAAP, deficiencies in the endowment fund that are reported in unrestricted net assets are $256,004 and zero as of June 30, 2016 and 2015, respectively.

Endowment net asset composition by type of fund consists of the following as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (256,004)	$ -	$ 4,182,320	$ 3,926,316

Changes in endowment net assets for the year ended June 30, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 4,135,935	$ 4,135,935
Investment return income	86,758	-	-	86,758
Net depreciation (realized and unrealized)	(135,761)	-	-	(135,761)
Total investment return	(49,003)	-	4,135,935	4,086,932
Contributions	-	-	53,260	53,260
Removal of restrictions by donor	-	-	(6,875)	(6,875)
Appropriation of endowment assets				-
for expenditure	(207,001)	-	-	(207,001)
Endowment net assets, end of year	$ (256,004)	$ -	$ 4,182,320	$ 3,926,316

Endowment net asset composition by type of fund consists of the following as of June 30 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 4,135,935	$ 4,135,935

Note 14. Endowment Funds (Continued)

Changes in endowment net assets for the year ended June 30, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 4,702,042	$ 4,702,042
Investment return income	64,748	-	-	64,748
Net appreciation (realized and unrealized)	47,281	-	-	47,281
Total investment return	112,029	-	4,702,042	4,814,071
Contributions	-	-	21,828	21,828
Removal of restrictions by donor	-	-	(587,935)	(587,935)
Appropriation of endowment assets				-
for expenditure	(112,029)	-	-	(112,029)
Endowment net assets, end of year	$ -	$ -	$ 4,135,935	$ 4,135,935

The University's board of trustees has adopted investment and spending policies for endowment assets that attempt to provide for the preservation of capital with an emphasis on consistent long-term growth of principal and income without undue exposure to risk that will provide a predictable stream of funding to programs. The endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity. The objective of the endowment fund's rate of return is to be equal to or greater than the spending rate plus the inflation rate.

To satisfy its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The University has established an investment spending policy of appropriating for distribution each year a minimum of five percent of the previous four quarters' moving average of principal value (the donated value, excluding appreciation) of the endowment funds. In years where the current year earnings in the fund exceed the minimum, a formula is used to calculate the additional amounts above the minimum that can be disbursed from the fund while allowing the fund to grow at a rate in excess of inflation. If the investment return is less than the minimum return, the appropriation for distribution is adjusted appropriately. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long-term, the University expects the current spending policy to allow its endowment to grow at an acceptable rate annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

Note 15. Fair Value of Financial Instruments

The University measures its investments and its beneficial interest held in trusts at fair value on a recurring basis. A fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels that are ranked to indicate the quality and reliability of the resulting fair value measure:

Level 1: Inputs utilize quoted market prices in active markets for identical assets or liabilities

Level 2: Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals

Level 3: Inputs are observable for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity

The University uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the University measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 and Level 2 inputs are not available.

Equity securities and exchange-traded funds are valued on the active market on which the individual securities are traded. Corporate and government bonds and notes are valued using pricing models maximizing the use of observable inputs for similar securities. Mutual funds are valued at the daily closing price as reported by the fund. Beneficial interests held in trusts are valued based on the investments held by the trusts.

For the fiscal years ended June 30, 2016 and 2015, the application of valuation techniques applied to similar assets and liabilities has been consistent.

The following table sets forth by level within the fair value hierarchy the University's financial assets and liabilities that were accounted for at a fair value on a recurring basis as of June 30, 2016 and 2015. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The University's assessment of the significance of a particular input to fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels.

Note 15. Fair Value of Financial Instruments (Continued)

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Investments:				
Equity securities:				
Consumer goods	$ 63,267	$ -	$ -	$ 63,267
Financial services	91,714	-	-	91,714
Healthcare	199,281	-	-	199,281
Industrial goods	88,559	-	-	88,559
Technology	145,091	-	-	145,091
Services	288,344	-	-	288,344
	876,256	-	-	876,256
Corporate bonds and notes	367,530	-	-	367,530
Government bonds and notes	389,311	-	-	389,311
Mutual funds:				
Equities:				
International	14,485	-	-	14,485
Small cap	74,402	-	-	74,402
Mid-cap	111,420	-	-	111,420
Large cap	106,371	-	-	106,371
Index	97,744	-	-	97,744
Other	110,177	-	-	110,177
	514,599	-	-	514,599
Bonds	96,258	-	-	96,258
	610,857	-	-	610,857
Exchange-traded funds:				
International	367,998	-	-	367,998
Real estate	40,100	-	-	40,100
Small cap	4,974	-	-	4,974
Mid-cap	4,822	-	-	4,822
Index	53,207	-	-	53,207
Fixed income	24,444	-	-	24,444
	495,545	-	-	495,545
Total investments	$ 2,739,499	$ -	$ -	$ 2,739,499
Beneficial interests held in trusts	$ -	$ -	$ 571,905	$ 571,905
Annuities payable	$ -	$ -	$ 535,835	$ 535,835

Note 15. Fair Value of Financial Instruments (Continued)

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Investments:				
Equity securities:				
Consumer goods	$ 97,025	$ -	$ -	$ 97,025
Financial services	149,242	-	-	149,242
Healthcare	297,433	-	-	297,433
Industrial goods	98,679	-	-	98,679
Technology	137,902	-	-	137,902
Basic materials	20,469	-	-	20,469
Services	286,756	-	-	286,756
Telecommunications	57,999	-	-	57,999
Utilities	1,478	-	-	1,478
	1,146,983	-	-	1,146,983
Corporate bonds and notes	547,621	-	-	547,621
Government bonds and notes	417,617	-	-	417,617
Mutual funds:				
Equities:				
International	419,061	-	-	419,061
Small cap	128,096	-	-	128,096
Mid-cap	206,815	-	-	206,815
Large cap	147,821	-	-	147,821
Index	410,072	-	-	410,072
Other	166,542	-	-	166,542
	1,478,407	-	-	1,478,407
Bonds	97,863	-	-	97,863
	1,576,270	-	-	1,576,270
Exchange-traded funds:				
Real estate	24,621	-	-	24,621
Small cap	6,522	-	-	6,522
Mid-cap	9,268	-	-	9,268
Index	93,311	-	-	93,311
	133,722	-	-	133,722
Total investments	$ 3,822,213	$ -	$ -	$ 3,822,213
Beneficial interests held in trusts	$ -	$ -	$ 609,699	$ 609,699
Annuities payable	$ -	$ -	$ 595,847	$ 595,847

Note 15. Fair Value of Financial Instruments (Continued)

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value:

	Beneficial interests held in trusts	Annuities payable	Total
Balance at July 1, 2015	$ 609,699	$ 595,847	$ 1,205,546
Total gains (losses)	(13,278)	-	(13,278)
Interest and dividends	12,703	-	12,703
Fees	(6,718)	-	(6,718)
Sales	(30,501)	-	(30,501)
Change in value	-	(60,012)	(60,012)
Balance at June 30, 2016	$ 571,905	$ 535,835	$ 1,107,740

	Beneficial interests held in trusts	Annuities payable	Total
Balance at July 1, 2014	$ 626,764	$ 570,225	$ 1,196,989
Total gains (losses)	6,986	-	6,986
Interest and dividends	11,920	-	11,920
Fees	(7,234)	-	(7,234)
Sales	(28,737)	-	(28,737)
Change in value	-	25,622	25,622
Balance at June 30, 2015	$ 609,699	$ 595,847	$ 1,205,546

Note 16. Economic Dependency

The University participates in certain student financial aid programs of the U.S. Department of Education. The University is dependent on the U.S. Department of Education for continued financial aid assistance to the University and its students. The programs consist of student loans, loans to parents of dependent children, student grants and part-time employment. The student financial aid programs are subject to audit by the U.S. Department of Education. It is the opinion of the University's management that any disallowance or adjustment of financial aid would not have a material adverse effect on the financial statements.

Note 17. Risks and Uncertainties

The Higher Learning Commission of the North Central Association of Colleges and Schools (HLC) notified CCU in June 2014 that the HLC was continuing CCU's accreditation; however, the HLC placed CCU on notice due to the potential risk of CCU being out of compliance with the Criteria for Accreditation and the core components identified by the HLC. CCU submitted and validated to the HLC a Notice Report providing evidence that CCU has ameliorated the concerns identified by the HLC and are no longer at risk of being out of compliance. In response to the Notice Report, at the HLC's Board of Trustees meeting on June 25, 2015, the Board removed the sanction of Notice from CCU. The HLC maintained the placement of CCU on the Standard Pathway, requiring CCU to host its next comprehensive evaluation in 2017-2018 and its next reaffirmation of accreditation in 2023-2024.

Note 17. Risks and Uncertainties (Continued)

The University received a communication from the Department of Education (DOE) dated July 8, 2015 that the University had failed to meet the financial responsibility standards for the year ended June 30, 2014. The University's composite score for the year ended June 30, 2014 was 1.3 and the Department of Education requires a composite score of 1.5. The University's response to this communication, dated July 21, 2015, outlined the University's intention to operate under the Zone Alternative. Under the Zone Alternative, the University is required to make disbursements to eligible students and parents before it requests or receives funds for the amounts disbursed from the DOE. In addition, the University must provide timely disclosure to the DOE upon the occurrence of certain oversight and financial events. The University may qualify under the Zone Alternative for three consecutive years but cannot qualify again under this alternative until the University achieves a composite score of at least 1.5.

For the year ended June 30, 2015, the University had a composite score of 1.7. The University received a communication from the DOE dated July 27, 2016 that the University had met the financial responsibility standards. Effective July 27, 2016, the University is no longer required to comply with the Zone Alternative restrictions. However, for the year ended June 30, 2016, the University has a composite score of 0.43. This composite score will require the University to comply with the requirements under the Zone Alternative and submit a letter of credit of at least 50 percent of the University's federal student financial aid funding. It is possible that the University would be allowed to participate under a provisional certification with a minimum letter of credit of 10 percent of the University's federal student financial aid funding and additional oversight.

Note 18. Sale of The Glades RV Resort

On June 30, 2015, CCU sold the remaining assets and the ownership of The Glades RV Resort to a third party as follows:

Cash received from purchase	$ 3,200,000
Rental deposits/customer prepays	(130,829)
Selling expenses	(157,852)
	$ 2,911,319
Assets sold:	
Land improvements	$ 174,897
Building	705,571
Equipment, furniture and fixtures	77,875
Accumulated depreciation	(223,173)
Land	1,278,858
	$ 2,014,028
Gain on sale	$ 897,291

Note 19. Subsequent Events

Subsequent events: Subsequent events have been evaluated through February 4, 2017, the date the financial statements were available to be issued.

Note 20. Recent Financial Results and Management's Plan

For the year ended June 30, 2016, the University had a decrease in net assets of approximately $2,350,000. In addition, through November 30, 2016, the University had an unaudited decrease in net assets of approximately $800,000. The University has also failed to meet certain debt covenants for the years ended June 30, 2016 and 2015. In addition, the University has spent any accumulated permanently restricted endowment earnings and has a deficiency in its permanently restricted endowment of approximately $256,000. These conditions have resulted in significant liquidity challenges for the University. Subsequent to year end, the University took the following steps to address its current financial position:

The University is in discussions regarding entering into a consultancy agreement with Kentucky Christian University (KCU). As part of the consultancy agreement, the University will work with KCU to develop an operational model that maximizes collaboration and to initiate an operational plan for both the University and KCU to consolidate and integrate administrative operations. The University and KCU will evaluate the possible benefits, challenges and risks associated with a merger of the two institutions in future periods. If executed, the University anticipates realization of cost savings to improve its current financial position.

The University and its financial institution are in discussions to consolidate the existing debt and borrow an additional $1,000,000 under a revolving line of credit. Subject to approval, the additional financial support will be provided in fiscal 2017. This additional borrowing will provide additional liquidity on a short-term basis to the University.

The University will continue to pursue conversations with certain donors who may allow the removal of restrictions on contributions made to the University.

The University is considering additional options which may include the sale of certain assets or other alternatives as deemed appropriate by University leadership as it reviews its results of operations on a regular basis.

Cincinnati Christian University

Uniform Guidance Audit Requirements

Cincinnati Christian University

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Total Federal Expenditures
Student Financial Aid:		
Federal Supplemental Educational		
Opportunity Grants	84.007	$ 28,187
Federal Work-Study Program	84.033	63,372
Federal Pell Grant Program	84.063	1,075,421
Federal Direct Student Loans (Note 2)	84.268	5,059,935
Total Student Financial Aid Programs		$ 6,226,915

See notes to schedule of expenditures of federal awards.

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Cincinnati Christian University (the University) for the year ended June 30, 2016, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the consolidated financial statements.

Note 2. Federal Direct Student Loans Program

The University acts as an intermediary for students receiving loans under the Federal Family Education Loans program, which includes the Direct Stafford Loans and Parent's Loans for Undergraduate Students from the federal government. The federal government is responsible for billings and collections of the loans. The University assists the federal government by processing the applications and applying funds to student accounts from the federal government. Since this program is administered by the federal government, new loans made in the fiscal year ended June 30, 2016, related to the Federal Direct Loan program are considered current year federal expenditures, whereas the outstanding loan balances are not. The total amount processed during the year ended June 30, 2016 is included on the schedule of expenditures of federal awards.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Cincinnati Christian University
Cincinnati, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Cincinnati Christian University (the University), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated February 4, 2017.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, items 2016.001 and 2016.002, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

University's Response to Findings

The University's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Cincinnati, Ohio
February 4, 2017

RSM

RSM US LLP

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Cincinnati Christian University
Cincinnati, Ohio

Report on Compliance for Each Major Federal Program
We have audited Cincinnati Christian University's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended June 30, 2016. The University's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for the University's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program
In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Other Matters
The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016.003, 2016.004 and 2016.005. Our opinion on the major federal program is not modified with respect to these matters.

The University's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance
Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies. We consider the deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016.003, 2016.004, and 2016.005, that we consider to be significant deficiencies.

The University's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Cincinnati, Ohio
February 4, 2017

Cincinnati Christian University

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified Opinion			
Internal control over financial reporting:				
Material weakness(es) identified?		yes	X	no
Significant deficiency(ies) identified not considered to be material weaknesses?	X	yes		none reported
Noncompliance material to financial statements noted?		yes	X	no

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?		yes	X	no
Significant deficiency(ies) identified not considered to be material weaknesses?	X	yes		none reported
Type of auditor's report issued on compliance for major programs:	Unmodified Opinion			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	yes		no

Major Program CFDA Numbers	Name of Federal Program or Cluster
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000			
Auditee qualified as a low risk auditee?	X	yes		no

Section II - Financial Statement Findings

2016.001 Segregation of Duties Related to Oversight of Payroll and Journal Entries

Statement of Condition: A small number of individuals have the primary responsibility for performing most of the accounting and financial duties. As a result, there is a lack of segregation of duties and certain processes are not reviewed. The same person who prepares the monthly financial statements also records most journal entries, with no second review. In addition, although each payroll is reviewed in total for reasonableness, the payroll journal and management reports are not reviewed by anyone.

Criteria: Segregation of duties and reviews should be in place to ensure adequate internal controls.

Cause of condition: Due to a limited number of personnel, adequate segregation of duties and reviews have not been maintained.

Effect: The financial statements could be misstated as a result of errors from journal entries recorded or from the preparation of the payroll.

Recommendation: The financial statements are reviewed by the President and the Finance Committee which provides a level of mitigating controls. However, proper segregation of duties are recommended. Procedures should be implemented that require a review of journal entries by another individual and a detailed review of payroll reports.

Views of responsible officials and planned corrective action (unaudited): See views of responsible officials in the accompanying Corrective Action Plan on page 39.

2016.002 Restricted Net Assets

Statement of Condition: The University maintains accounting records related to individual permanently restricted net asset funds. In addition, the University will calculate amounts available to be distributed as temporarily restricted net assets based on donor restrictions or University policies. The amounts available to be used are provided to appropriate personnel for scholarship awards or other purposes. However, journal entries are not posted to the general ledger for the amounts available for temporarily restricted purposes (from investment returns) and any related expenditures to arrive at the remaining temporarily restricted balances related to each endowment fund.

Criteria: Accounting standards require the adjustment of temporarily restricted net assets for 1) investment income or losses related to endowment funds contributed for a specified purpose and 2) expenditures that meet the stipulated purpose of the permanently restricted contribution.

Cause of Condition: Procedures have not been implemented to record journal entries for the financial activity of temporarily restricted net assets related to endowment contributions.

Effect: Temporarily restricted net asset balances related to permanently restricted contributions were misstated. During the year under audit adjusting journal entries were recorded to properly reflect balances for each net asset classification.

Recommendation: The University should record in the general ledger investment income and losses on endowment funds with a stipulated purpose as temporarily restricted net assets and record the expenditures that meet the purpose of the contribution as reductions to temporarily restricted net assets.

Views of Responsible Officials and Planned Corrective Action (Unaudited): See views of responsible officials in the accompanying Corrective Action Plan on page 39.

Section III – Findings and Questioned Costs for Federal Awards

2016.003 Reporting, Security Policies and Drug and Alcohol Abuse Prevention Program

Statement of Condition: During our testing of the Title IV reporting requirements, we noted that the University had not complied with the athletic reporting requirements. The University did not report the graduation rates and transfer-out rates for student athletes, which is required as the institution provides athletically related aid to students.

While testing the University's safety requirements, we identified that the University does not have written policies and procedures for missing student notification.

During our testing of the drug and alcohol abuse prevention program, we noted that the University has not performed a biennial review of the program. This is required to help assess the effectiveness of the program and to ensure disciplinary sanctions are consistently enforced.

Criteria: According to 34 CFR 668.48(a)(1)(iii), institutions that provide athletically-related student aid must provide a report that includes the completion or graduation rates and the transfer-out rate. In addition, 34 CFR 668.46(h) states that an institution that provides on-campus housing must include a statement of policy in regards to missing student notification procedures. Also, 34 CFR 86.100(b) requires a biennial review of the drug and alcohol abuse prevention program by the institution of higher education.

Cause of Condition: The University has not implemented controls to verify that the University has met the required reporting requirements, a policy has not been established for missing student notification and a biennial review of the drug and alcohol abuse prevention program is not being performed.

Effect: The University is not in compliance with 34 CFR 668.48(a)(1)(iii), 34 CFR 668.46(h) and 34 CFR 86.100(b).

Recommendation: The University should develop controls to monitor reporting requirements in order to be in compliance with the federal regulations. The University should also develop policies and procedures for missing student notification and review the drug and alcohol abuse prevention program at least every two years.

Views of Responsible Officials and Planned Corrective Action (Unaudited): See views of responsible officials in the accompanying Corrective Action Plan on page 39.

2016.004 Enrollment Reporting and Attendance Reporting

Statement of Condition: During the course of performing eligibility audit procedures, we identified one student from a sample of 40 who graduated in the fall semester, but the National Student Loan Data System (NSLDS) was not notified of the graduation within the required timeframe (30 days).

During the course of refund testing, we identified 1) three students from a sample of five who withdrew and did not have their status reported to the NSLDS in the required timeframe and 2) one student from a sample of five that had a date of determination of withdrawal greater than 14 days.

Section III – Findings and Questioned Costs for Federal Awards (Continued)

Criteria: According to 34 CFR 685.309(b)(2), unless it expects to submit its next student confirmation report to the Secretary within the next 60 days, the University must notify the Department of Education within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who has ceased to be enrolled on at least a half-time basis. In addition, for institutions required to take attendance, 34 CFR 668.22(b) states that the withdrawal date for a student who ceases to attend class, including a student who does not return from an approved leave of absence, is the last date of academic attendance as determined by the institution from its attendance records. The Dear Colleague Letter GEN-04-12, written by the Assistant Secretary for Postsecondary Education, provides an expectation that the University's date of determination be no later than two weeks (14 days) after the student's withdrawal date.

Cause of Condition: Controls are not effectively designed to report changes in student enrollment status within 30 days. In addition, controls are not in place to ensure timely and accurate reporting of student attendance.

Effect: The University has not complied with the requirements of 34 CFR 685.309(b)(2), 34 CFR 668.22(b) and Dear Colleague Letter GEN-04-12.

Recommendation: The University should design controls to ensure student enrollment changes are reported within the required time frame. The University should also design controls to ensure attendance is reported timely and accurately.

Views of Responsible Officials and Planned Corrective Action (Unaudited): See views of responsible officials in the accompanying Corrective Action Plan on page 39.

2016.005 Oversight of Student Financial Aid Department

Statement of Condition: The Associate Director of Financial Aid determines student eligibility for federal student financial aid, calculates Title IV refunds, and performs other procedures related to federal student financial aid that are not reviewed by another individual at the University.

Criteria: According to 2 CFR 200.303(a), the non-federal entity must: establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Cause of Condition: Adequate procedures have not been established to review the activity related to student financial aid.

Effect: Errors could exist and not be detected.

Recommendation: The University should develop procedures that provide oversight and review of federal student financial aid activities. This would include the determination of eligibility, correspondence with students and the calculation of Title IV refunds.

Views of Responsible Officials and Planned Corrective Action (Unaudited): See views of responsible officials in the accompanying Corrective Action Plan on page 39.

Cincinnati Christian University

Summary Schedule of Prior Audit Findings and Questioned Costs

Identifying Number:	2015.001
Audit Finding:	The University utilizes a management company to manage the day to day operations, as well as maintain the accounting records of the Glades. Management company personnel collect, deposit and record receipts; make purchases, pay vendors and reconcile the cash account; hire, terminate and change wages of Glades employees, all with little or no prior approval and/or review by the University.
Corrective Action Taken:	The Glades was sold during 2015 and CCU no longer owns the property.
Identifying Number:	2015.002
Audit Finding:	A small number of individuals have the primary responsibility for performing most of the accounting and financial duties. As a result, there is a lack of segregation of duties and certain processes are not reviewed. The same person who prepares the monthly financial statements also records most journal entries, with no second review. In addition, although each payroll is reviewed in total for reasonableness, the payroll journal and management reports are not reviewed by anyone.
Corrective Action Taken:	See 2016.001
Identifying Number:	2015.003
Audit Finding:	The University maintains accounting records related to individual permanently restricted net asset funds. In addition, the University will calculate amounts available to be distributed as temporarily restricted net assets based on University policies. The amounts available to be used are provided to appropriate personnel for scholarship awards or other purposes. However, journal entries are not posted to the general ledger for the amounts available for temporarily restricted purposes (from investment returns) and any related expenditures to arrive at the remaining temporarily restricted balances related to each endowment fund.
Corrective Action Taken:	See 2016.002

Identifying Number:	2015.004
Audit Finding:	During the course of our testing of eligibility, we identified one student from a sample of 40 who had a Title IV credit balance, but a refund was not made to the student within the required 14 day period.
Corrective Action Taken:	The University has improved procedures related to the timely refund of Title IV student credit balances.

Identifying Number:	2015.005
Audit Finding:	The Associate Director of Financial Aid determines student eligibility for federal student financial aid, calculates Title IV refunds, and performs other related procedures that are not reviewed by another individual at the University. In addition, the University does not prepare monthly reconciliations for the federal funds received for its Federal Work Study Program (FWS) and Federal Supplemental Education Opportunity Grant (FSEOG).
Corrective Action Taken:	See 2016.005. The University has improved procedures related to preparing reconciliations for FWS and FSEOG.

Identifying Number:	2015.006
Audit Finding:	During our testing of the Title IV reporting requirements, we noted that the University had not complied with the athletic reporting requirements. The University did not report the graduation rate and transfer-out rate for student athletes, which is required as the institution provides athletically related aid. During the course of testing safety requirements, we identified that the University does not have written policies and procedures for missing student notification
Corrective Action Taken:	See 2016.003

Identifying Number:	2015.007
Audit Finding:	During the course of performing eligibility audit procedures, we identified the following out of a sample of 40: • One student graduated in the fall semester, but the National Student Loan Data System (NSLDS) was not notified until after 30 days. • One student withdrew after the fall semester, but the NSLDS was not notified until after 30 days. When the student returned to class for the summer semester, the NSLDS was not notified within 30 days. In addition, the University did not report the spring 2015 graduates within the required 30 day or 60 day period.
Corrective Action Taken:	See 2016.004. The university began reporting enrollment changes to the NSDLS through the National Student Clearinghouse during the 2015-16 school year.

CINCINNATI
CHRISTIAN UNIVERSITY

Corrective Action Plan

For the Year Ended June 30, 2016

Finding Number: 2016.001

View of responsible officials: Individuals who are authorized to prepare journal entries will be required to have another individual review and post. Effective July 2016, the University began converting to a new payroll software solution. Implementation took effect in September 2016, resulting in an updated policy to have the Director of Financial Services review each bi-weekly payroll to ensure that employees are receiving appropriate compensation and benefits.

Finding Number: 2016.002

View of responsible officials: Procedures are being implemented to 1) maintain financial activity for temporarily restricted obligations related to endowment funds in a subsidiary ledger and 2) record journal entries for investment results and disbursements.

Finding Number: 2016.003

View of responsible officials: With assistance from the Student Life department, a policy is being developed to meet missing student notification requirements. The University is dedicated to ensuring student safety, and promoting retention and persistence for its student-athletes towards graduation. With joint collaboration from Registrar and Athletics, policies will be implemented to report graduation and transfer-out rates for student athletes.

Finding Number: 2016.004

View of responsible officials: University faculty are required to report attendance weekly. Academic chairs, deans, and the vice president are notified when faculty have not followed procedures according to the policy. This will enable Financial Aid to remain in compliance with federal regulations.

Finding Number: 2016.005

View of responsible officials: The University's enrollment is smaller relative to other institutions. The department's processes and outcomes coincide with additional activities in Enrollment Services to help mitigate, to the best of its ability, inaccurate student awards and refunds.

Randy S Koehler	Director of Financial Svcs	2/4/17
Name	Title	Date

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